



Tennessee Education Lottery

Estimates for Net Lottery Proceeds & After-School Funding

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Historical Results

<i>Category</i>	<i>FY12-13</i>	<i>FY13-14</i>	<i>FY14-15</i>	<i>FY15-16</i>
<i>Total Net Revenue</i>	\$1,280,366,277	\$1,323,572,632	\$1,372,982,180	\$1,515,551,310
<i>Prize Expense</i>	\$812,547,301	\$850,790,713	\$881,103,549	\$965,989,002
<i>Retailer Commissions</i>	\$89,258,881	\$92,492,072	\$96,338,232	\$106,145,236
<i>Operating Expense</i>	\$16,916,511	\$17,313,853	\$18,493,366	\$18,191,834
<i>Other Expenses</i>	\$40,101,263	\$39,994,473	\$41,109,343	\$42,762,673
<i>Total Expenses</i>	\$958,823,956	\$1,000,591,111	\$1,037,044,490	\$1,133,088,745
<i>Net Lottery Proceeds</i>	\$321,542,321	\$322,981,521	\$335,937,690	\$382,462,565
<i>After-School Funding</i>	\$18,170,504	\$14,290,845	\$11,847,864	\$11,586,227
<i>Total State Proceeds</i>	\$339,712,825	\$337,272,366	\$347,785,554	\$394,048,792





Actual Growth in FY15-16

<u><i>Category</i></u>	<u><i>FY14-15</i></u>	<u><i>FY15-16</i></u>	<u><i>Growth</i></u>
Total Net Revenue	\$1,372,982,180	\$1,515,551,310	10.4%
Total Expenses	\$1,037,044,490	\$1,133,088,745	9.3%
NET LOTTERY PROCEEDS	<u>\$335,937,690</u>	<u>\$382,462,565</u>	<u>13.8%</u>
After-School Proceeds	\$11,847,864	\$11,586,227	-2.2%
TOTAL STATE PROCEEDS	<u>\$347,785,554</u>	<u>\$394,048,792</u>	<u>13.3%</u>





Instant Game Growth in FY15-16

Price Point	Percent of Instant Game Sales	FY14-15 Gross Sales (Millions)	FY15-16 Gross Sales (Millions)	Percent Sales Growth	Dollar Growth (Millions)
\$1	7.2%	\$94.5	\$93.8	-0.7%	-\$0.7
\$2	16.1%	\$216.4	\$210.5	-2.7%	-\$5.9
\$3	8.2%	\$91.1	\$106.7	17.1%	\$15.6
\$5	22.4%	\$280.7	\$291.8	4.0%	\$11.1
\$10	20.3%	\$225.4	\$265.4	17.7%	\$40.0
\$20	12.2%	\$166.2	\$159.5	-4.0%	-\$6.7
\$25	9.7%	\$145.7	\$126.5	-13.2%	-\$19.2
\$30	3.9%	\$0.0	\$50.3	N/A	\$50.3
Total	100.0%	\$1,220.0	\$1,304.5	6.9%	\$84.5





Growth in Numbers Games – FY15-16

- **CASH 3:**

- *FY14-15 sales: \$58,877,821*
- *FY15-16 sales: \$61,561,055*
- *FY15-16 dollar growth: + \$2,683,234*
- *FY15-16 percent growth: + 4.6%*

- **CASH 4:**

- *FY14-15 sales: \$33,359,486*
- *FY15-16 sales: \$35,065,799*
- *FY15-16 dollar growth: + \$1,706,313*
- *FY15-16 percent growth: + 5.1%*





Hot Lotto Growth in FY15-16

- *FY14-15 sales: \$15,349,247*
- *FY15-16 sales: \$11,292,846*
- *FY15-16 dollar growth: **-\$4,056,401***
- *FY15-16 percent growth: **-26.4%***

<i>Fiscal Year</i>	<i>Average Jackpot Cycle</i>	<i>Highest Jackpot Cycle</i>	<i>Drawings with Jackpots \$5,000,000 or More</i>	<i>Jackpot Winners</i>
FY14-15	\$5,657,788	\$11,710,000	56	1
FY15-16	\$2,229,524	\$9,850,000	1	4





Tennessee Cash Growth in FY15-16

- *FY14-15 sales: \$19,594,124*
- *FY15-16 sales: \$17,369,787*
- *FY15-16 dollar growth: - \$2,224,337*
- *FY15-16 percent growth: - 11.4%*

<i>Fiscal Year</i>	<i>Average Jackpot Cycle</i>	<i>Highest Jackpot Cycle</i>	<i>Drawings with Jackpots \$1,000,000 or More</i>	<i>Jackpot Winners</i>
FY14-15	\$650,000	\$1,690,000	16	8
FY15-16	\$435,657	\$950,000	0	10





Mega Millions Growth in FY15-16

- *FY14-15 sales: \$39,201,166*
- *FY15-16 sales: \$37,369,086*
- *FY15-16 dollar growth: - \$1,832,080*
- *FY15-16 percent growth: - 4.7%*

<i>Fiscal Year</i>	<i>Average Jackpot Cycle</i>	<i>Highest Jackpot Cycle</i>	<i>Drawings with Jackpots \$250.0 Million or More</i>	<i>Jackpot Winners</i>
FY14-15	\$93,761,905	\$321,000,000	5	6
FY15-16	\$101,682,692	\$390,000,000	8	6





Powerball Growth in FY15-16

- *FY14-15 sales: \$87,824,273*
- *FY15-16 sales: \$147,366,941*
- *FY15-16 dollar growth: + \$59,542,668*
- *FY15-16 percent growth: + 67.8%*

<i>Fiscal Year</i>	<i>Average Jackpot Cycle</i>	<i>Highest Jackpot Cycle</i>	<i>Drawings with Jackpots \$250.0 Million or More</i>	<i>Jackpot Winners</i>
FY14-15	\$104,878,846	\$500,000,000	5	14
FY15-16	\$160,232,381	\$1,586,400,000	15	7





All Jackpot Games in FY15-16

- *Includes Powerball, Mega Millions, Hot Lotto, and Tennessee Cash*
- *FY14-15 combined sales: \$161,968,810*
- *FY15-16 combined sales: \$213,398,660*
- *FY15-16 net dollar growth: + \$51,429,850*
- *FY15-16 percent growth: + 31.8%*

<i>Game</i>	<i>FY14-15</i>	<i>FY15-16</i>	<i>Difference</i>	<i>Percent Change</i>
Powerball	\$87,824,273	\$147,366,941	\$59,542,668	67.8%
Mega Millions	\$39,201,166	\$37,369,086	(\$1,832,080)	-4.7%
Hot Lotto	\$15,349,247	\$11,292,846	(\$4,056,401)	-26.4%
TN Cash	\$19,594,124	\$17,369,787	(\$2,224,337)	-11.4%
Total	\$161,968,810	\$213,398,660	\$51,429,850	31.8%





Cash 4 Life

- *New Game introduced in November 2015*
- *Top Prizes: \$1,000 a day for life;
\$1,000 a week for life;*
- *Generated significant incremental revenue in FY15-16: + \$12,444,910*
- *Helped offset the negative growth of Mega Millions, Tennessee Cash, and Hot Lotto: - \$8,112,818*
- *Net increase of \$4,332,092*





Recap for FY15-16

- *Total net revenue: \$1,515,551,310; + 10.4% growth*
- *Net lottery proceeds: \$382,462,565; + 13.8% growth*
- *Good growth (6.9%) from instant games – 80.2% of sales*
- *Better-than-average growth (4.8%) from Cash 3 and Cash 4 – 5.9% of sales*
- *Extraordinary growth (31.8%) from jackpot games – 13.1% of sales*
 - *Due exclusively to growth of sales for Powerball*
 - *Despite significant negative growth for Mega Millions, Hot Lotto, and Tennessee Cash*
- *Incremental revenue – Cash 4 Life – 0.8% of sales*





FY16-17: Year-to-Date

- ❑ *Total Net Revenue: + 5.2% (as of 9/30/2016)*
 - *Instant Games: 1.5%*
 - *Cash 3 and Cash 4: + 2.9%*
 - *Jackpot Games (PB, MM, HL, TC): + 24.4%*
 - *Cash 4 Life: ≈ \$3,082,200 incremental revenue*
- ❑ *Total Expenses: + 4.7% (as of 9/30/2016)*
 - *Prize Expense: + 4.8%*
 - *Total Expenses / Total Net Revenue: 74.5%*
- ❑ *Net Lottery Proceeds (NLP): + 6.7% (as of 9/30/2016)*
 - *Net Lottery Proceeds / Total Net Revenue: 25.5%*





Assumptions for FY16-17

- *No matrix changes to any of the four jackpot games*
- *No structural changes to Cash 3 or Cash 4*
- *Launch of at least one new spotlight instant game and/or some other type game between February and May 2017.*
- *Two additional jackpot cycles above \$400 million in PB*
- *Two additional jackpot cycles above \$250 million in MM*
- *No significant changes to retailer base or incentives provided to retailers*
- *No legislative action impacting sales or proceeds*
- *Total Expenses = 75.0% of Total Net Revenue*
- *Net Lottery Proceeds = 25.0% of Total Net Revenue*





FY16-17 Estimates

	Low	Median	Upper
Instant Games (Net)	\$1,205,800,000	\$1,214,900,000	\$1,224,000,000
Cash 3 and Cash 4	\$97,000,000	\$98,000,000	\$99,000,000
PB, MM, Hot Lotto, & TN Cash	\$162,000,000	\$169,000,000	\$176,000,000
Cash 4 Life	\$10,000,000	\$11,000,000	\$12,000,000
Misc. Revenue	\$3,600,000	\$3,800,000	\$4,000,000
Total Net Revenue	\$1,478,400,000	\$1,496,700,000	\$1,515,000,000
Total Expenses (75.0%)	\$1,108,800,000	\$1,122,500,000	\$1,136,300,000
NET LOTTERY PROCEEDS (25.0%)	\$369,600,000	<u>\$374,200,000</u>	\$378,700,000
After-School Funding	\$11,500,000	\$12,500,000	\$13,500,000
TOTAL STATE PROCEEDS	\$381,100,000	<u>\$386,700,000</u>	\$392,200,000





Assumptions for FY17-18

- *No matrix changes to any of the four jackpot games*
- *No structural changes to Cash 3 or Cash 4*
- *Launch of at least one new spotlight instant game and/or some other type game between February and May 2018.*
- *At least two jackpot cycles above \$400 million in PB*
- *At least two jackpot cycles above \$250 million in MM*
- *No significant changes to retailer base or incentives provided to retailers*
- *No legislative action impacting sales or proceeds*
- *Total Expenses = 75.2% of Total Net Revenue*
- *Net Lottery Proceeds = 24.8% of Total Net Revenue*



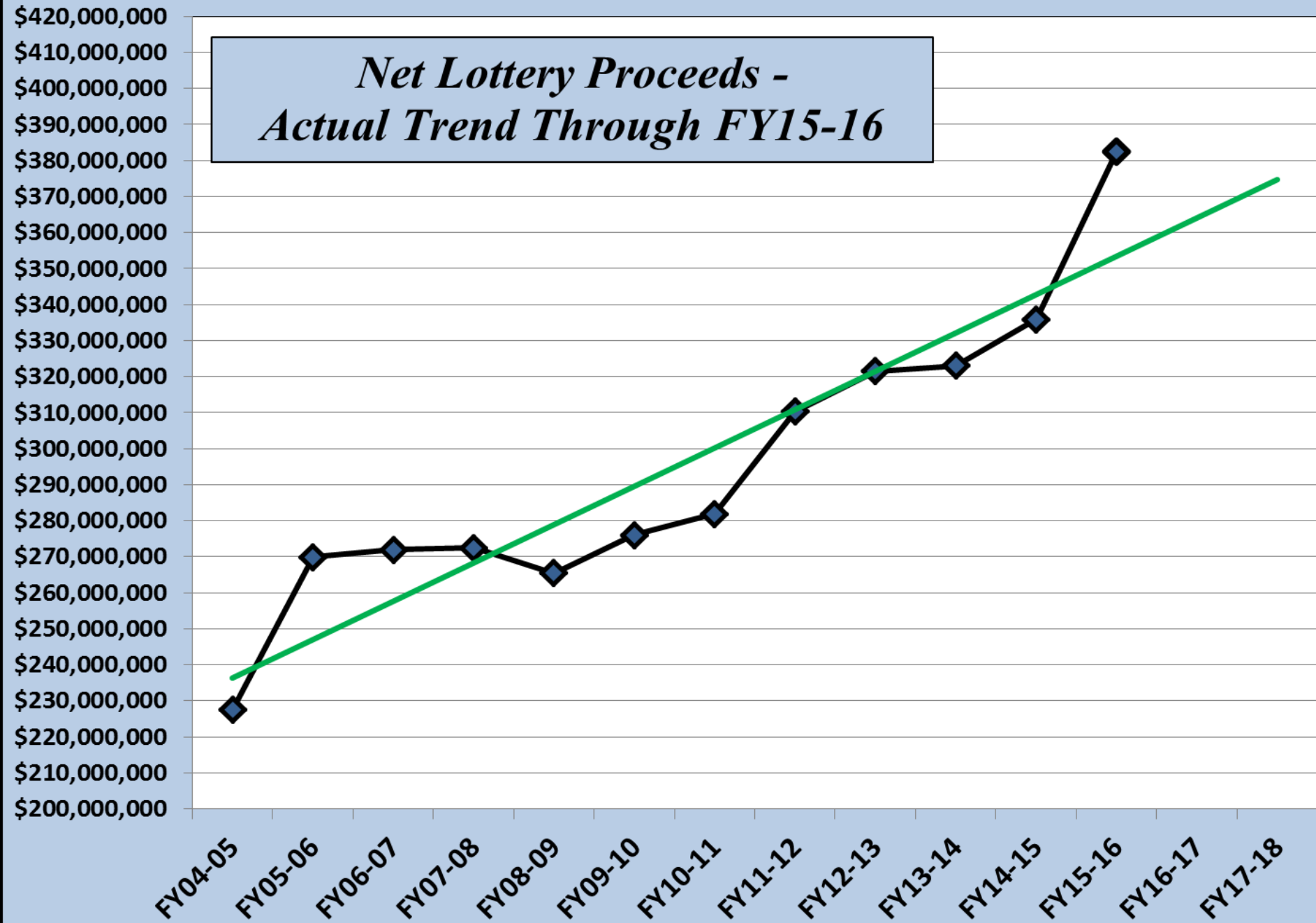


FY17-18 Estimates

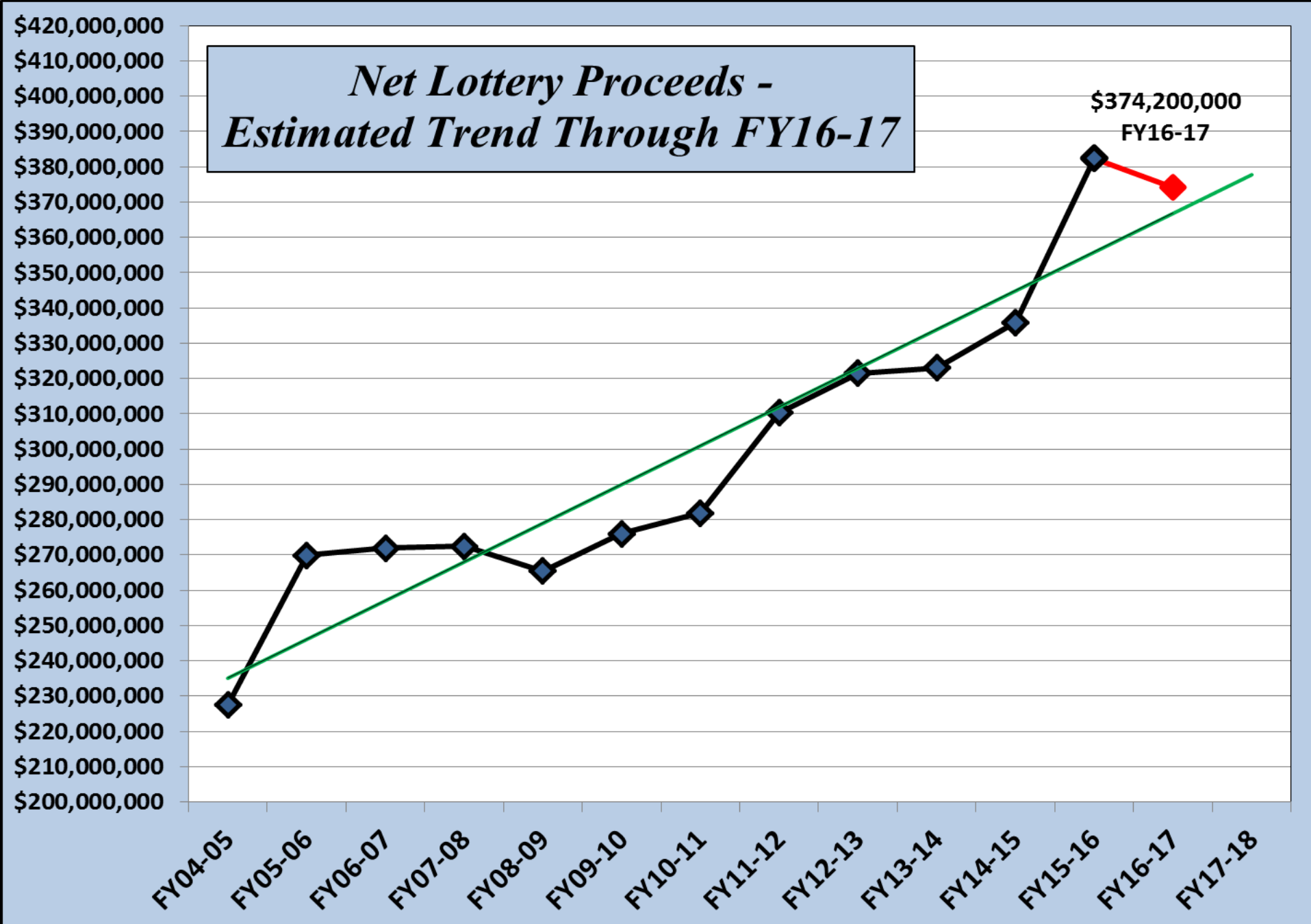
	Low	Median	Upper
Instant Games (Net)	\$1,263,400,000	\$1,269,500,000	\$1,275,600,000
Cash 3 and Cash 4	\$98,000,000	\$99,500,000	\$101,000,000
PB, MM, Hot Lotto, & TN Cash	\$154,500,000	\$167,000,000	\$179,500,000
Cash 4 Life	\$9,000,000	\$10,000,000	\$11,000,000
Misc. Revenue	\$3,600,000	\$3,800,000	\$4,000,000
Total Net Revenue	\$1,528,500,000	\$1,549,800,000	\$1,571,100,000
Total Expenses (75.2%)	\$1,149,400,000	\$1,165,400,000	\$1,181,500,000
NET LOTTERY PROCEEDS (24.8%)	\$379,100,000	<u>\$384,400,000</u>	\$389,600,000
After-School Funding	\$12,000,000	\$13,000,000	\$14,000,000
TOTAL STATE PROCEEDS	\$391,100,000	<u>\$397,400,000</u>	\$403,600,000



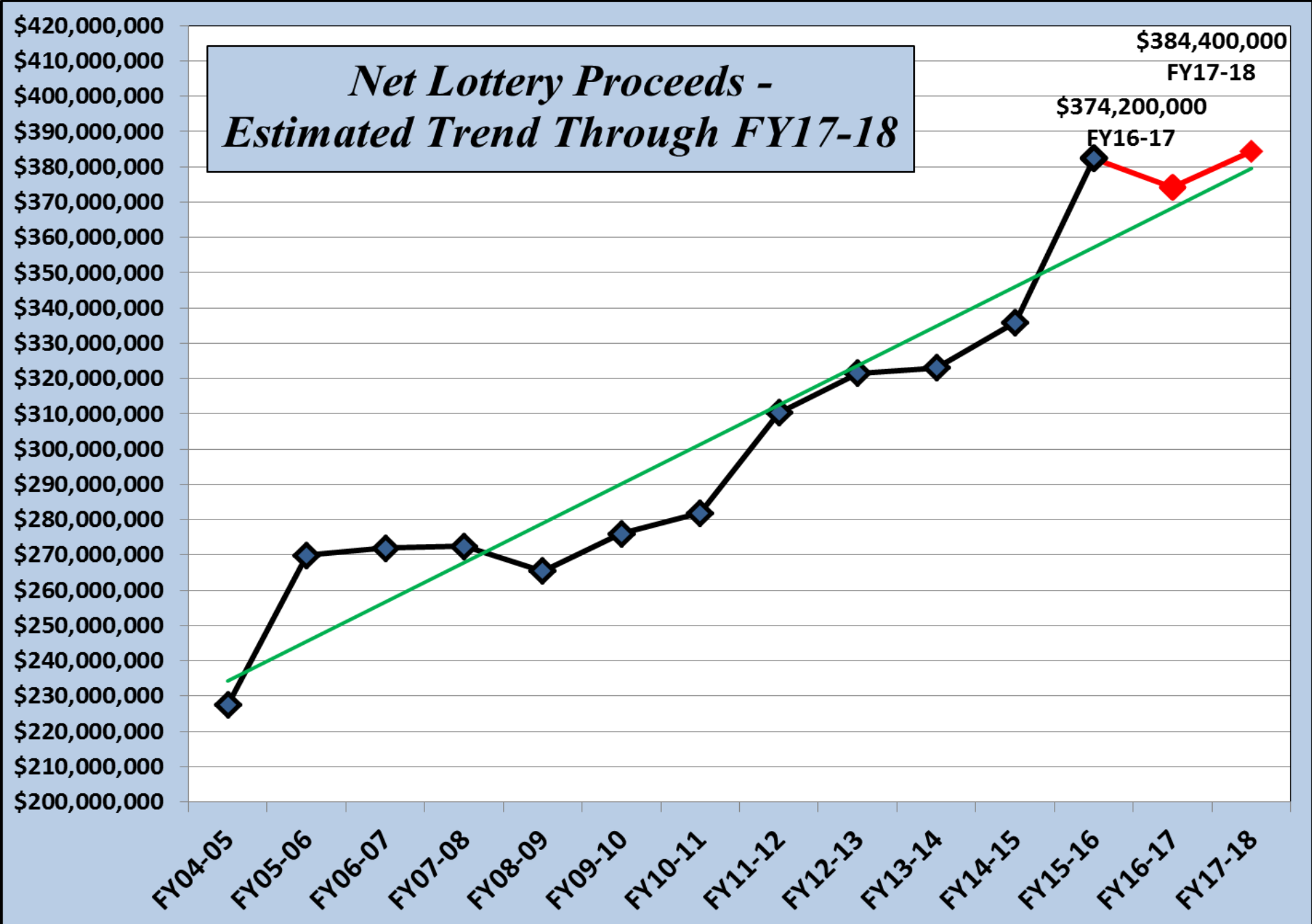
*Net Lottery Proceeds -
Actual Trend Through FY15-16*



*Net Lottery Proceeds -
Estimated Trend Through FY16-17*



*Net Lottery Proceeds -
Estimated Trend Through FY17-18*





Subsequent Years

- Growth beyond FY17-18 is difficult to forecast due to a number of unknown factors such as:
 - *Changes to payout ratios*
 - *Matrix changes to jackpot based games*
 - *Structure changes to pari-mutuel and online games*
 - *Legislative action*
 - *Varying jackpot cycles*
 - *New and discontinued games*
 - *Changes to retailer base*
 - *Changes in advertising*
 - *Changes in economy*





FY18-19, FY19-20, & FY20-21

- Over the last five years, the TELC's average growth rate for lottery proceeds has been 3.2% per year.*
- The industry average growth rate for lottery proceeds has been 1.1% per year.*
- FRC has assumed: 3.5% annual revenue growth and 1.8% annual proceeds growth.*

	FY18-19	FY19-20	FY20-21
Total Net Revenue	\$1,604,043,000	\$1,660,185,000	\$1,718,291,000
Total Expenses	\$1,212,724,000	\$1,261,822,000	\$1,312,757,000
Net Lottery Proceeds	<u>\$391,319,000</u>	<u>\$398,363,000</u>	<u>\$405,534,000</u>
After-School Funding	\$13,000,000	\$13,500,000	\$14,000,000
Total State Proceeds	<u>\$404,319,000</u>	<u>\$411,863,000</u>	<u>\$419,534,000</u>



*Net Lottery Proceeds -
Estimated Trend Through FY20-21*

